COMPANY RESEARCH AND ANALYSIS REPORT

RS Technologies Co., Ltd.

3445

Tokyo Stock Exchange Prime Market

22-Apr.-2025

FISCO Ltd. Analyst
Yuzuru Sato

FISCO Ltd.
https://www.fisco.co.jp

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Summary

Growth to continue in both the Wafer Reclaim Business and Prime Wafer Business

RS Technologies Co., Ltd. <3445> (hereafter, also "the Company") is the leading company in the Wafer Reclaim Business for silicon wafers (hereafter, the "Wafer Reclaim Business"), a key material used in semiconductors, with a global market share of around 33% (the Company's estimate based on SEMI data). The Company also owns GRINM Semiconductor Materials Co., Ltd. (hereafter, "GRITEK"), a subsidiary in China engaged in the manufacturing and sales of prime silicon wafers (hereafter, the "Prime Wafer Business"). Actively pursuing M&A, the Company took over the vanadium redox flow battery (hereafter, "VRFB") electrolytes business in 2023 from LE System Co., Ltd., and at the end of 2024, it acquired Sony Precision Devices (Huizhou) Co., Ltd. (now RS Precision Devices (Huizhou) Co., Ltd. (hereafter, "RSPDH")), which manufactures automotive camera modules among other products, thereby continuing to expand its business domains.

1. Sales and profits increase YoY in FY12/24 results

For the FY12/24 consolidated results, net sales increased 14.1% year on year (YoY) to ¥59,200mn, operating profit rose 10.2% to ¥13,108mn, and the Company reached new record-high results for the first time in two fiscal years. The main contributing factors were strong sales growth including a 16.0% increase in the Wafer Reclaim Business and a 9.1% increase in the Prime Wafer Business resulting from investment to increase production capacity in response to booming demand. The Company also recorded ¥1,500mn in negative goodwill associated with the acquisition of RSPDH as extraordinary income, increasing profit attributable to owners of parent by 22.6% to ¥9,446mn.

2. Double-figure sales growth forecast in FY12/25 due to effects of M&As

The forecasts for the FY12/25 consolidated results are for net sales to increase 26.7% YoY to ¥75,000mn and operating profit to grow 15.2% to ¥15,100mn, with continued growth in both sales and profits expected. Continued sales growth is anticipated in both the Wafer Reclaim Business and Prime Wafer Business, and new businesses, including LE System and RSPDH, will also contribute to sales.

3. Continued investment in increasing production capacity of both reclaimed wafers and prime wafers

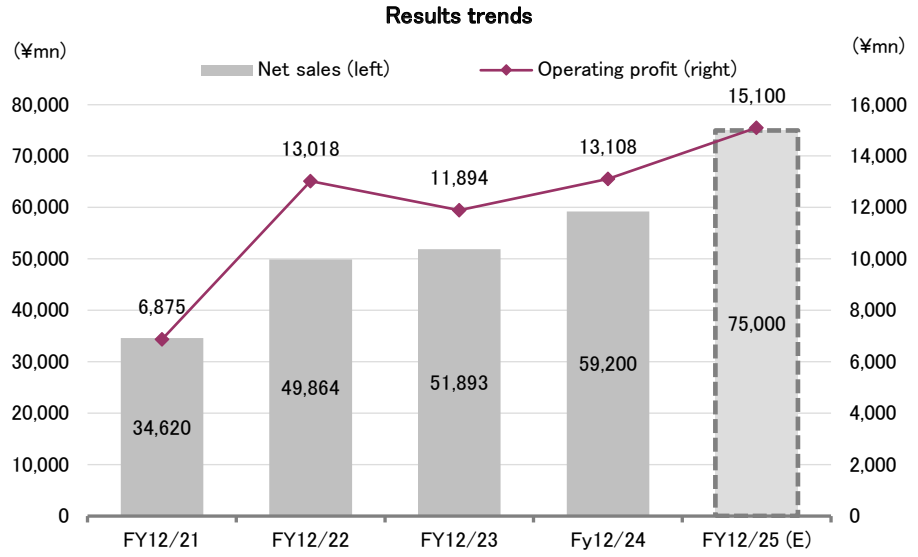
The Wafer Reclaim Business is increasing production capacity incrementally in response to a rise in demand driven by the establishment of a succession of new semiconductor factories in Japan and overseas. It plans to increase monthly production capacity of 12-inch wafers in Japan and Taiwan by around 1.4 times from 590,000 at the end of 2024 to 810,000 in 2027. Backed by the expansion of semiconductor production in China, it will also expand monthly production of 8-inch prime wafers by around 1.7 times from 180,000 at the end of 2024 to 300,000 in 2026. Both these increases are being implemented based on requests from customers and are expected to result in steady growth.

4. Growing the business portfolio through M&A strategy

In the VRFB electrolytes business, the Company is building a new factory in China, the largest VRFB demand center, through a joint venture with a local company, and it aims to realize mass production by 2026. The global VRFB market is expected to achieve high levels of growth, increasing at an annual rate of over 30% from 5GWh in 2024 to 27GWh in 2030. While there are many companies in China offering competing electrolytes, the Company plans to grow its share of the market through a strategy of strengthening its competitive edge by differentiating in terms of quality while reducing costs through local production. It aims to gain a leading share of the Chinese market in the near future and achieve sales of tens of billions of yen. Furthermore, in regard to RSPDH, the Company will focus on improving results by leveraging its network to cultivate customers in a wide range of areas beyond automotive cameras, including surveillance and drone cameras.

Key Points

- All businesses grew in FY12/24, setting new record highs
- Double-figure sales growth forecast in FY12/25 due to effects of M&As
- VRFB electrolytes business to enter the Chinese market in 2026, with the aim of achieving future sales in the tens of billions of yen range



Source: Prepared by FISCO from the Company's financial results

Company profile

Business domain expansion after having started in the silicon Wafer Reclaim Business

1. History

The Company was established in December 2010 to take over the facilities of Rasa Industries, Ltd. <4022>, which had withdrawn from the silicon Wafer Reclaim Business. Since then, it has been developing its silicon Wafer Reclaim Business through its two plants, the Sanbongi plant in Osaki City, Miyagi Prefecture and the Tainan plant in Taiwan (completed in 2015), which is owned by RSTEC Semiconductor Taiwan Co., Ltd., a subsidiary established in 2014.

Also, in 2017, the Company announced that it would be launching a Prime Wafer Business in China, and in 2018, together with Chinese state-owned company Beijing General Research Institute for Nonferrous Metals (now GRINM Group Co., Ltd.; hereafter, “GRINM”) and Fujian Kuramoto Investment Co., Ltd. (hereafter, “Fujian Kuramoto”), it established a joint venture, Beijing GRINM RS Semiconductor Technology Co., Ltd. (hereafter, “BGRS”). At the same time, BGRS invested in GRITEK, which was a subsidiary of GRINM that manufactured and sold silicon materials and prime wafers, turning it into a wholly owned subsidiary. The investment ratios in BGRS are 45% for the Company, 49% for GRINM and 6% for Fujian Kuramoto. Although its investment ratio is below 50%, Fujian Kuramoto is an investment company managed by a relative of Mr. Nagayoshi Ho, the president and CEO of the Company, so in actual terms, it owns more than 50%, and moreover, has appointed three of the five directors that comprise the BGRS Board of Directors. Therefore, it effectively holds the management rights and BGRS is deemed to be a subsidiary within its scope of consolidation. The reason for the complex investment scheme for BGRS is that, if a Chinese company’s investment ratio from local capital is 50% or above, it is treated as a domestically funded company and is eligible to receive various subsidies from the Chinese government and local governments for capital investment and other purposes. Such companies also receive preferential treatment regarding taxes, giving them competitive advantages over foreign-funded companies.

To further expand its business, GRITEK established Shandong GRINM Semiconductor Materials Co., Ltd. (hereafter, “Shandong GRITEK”) in 2018 as a joint venture with the local government of Dezhou City, Shandong Province (with an investment ratio of 80% for GRITEK and 20% for Dezhou Economic and Technological Development Zone Jingtai Investment Co., Ltd.), and set up the Shandong Plant as a new manufacturing base. The decision to expand into Shandong Province was based on factors such as the concentration of major semiconductor manufacturers in the surrounding area, the proximity of science and engineering universities, which makes it easier to acquire talented personnel, and the ability to enjoy various preferential treatment in terms of infrastructure costs. In 2020, the Company also established Shandong GRINM RS Semiconductor Materials Co., Ltd. (hereafter, “SGRS”), which handles 12-inch Wafer Reclaim and Prime Wafer Businesses, as a joint venture with GRINM, Dezhou City Government-affiliated funds, and others (the Company’s initial investment ratio was 19.99%, making it an equity-method affiliate, and currently holds shares through GRITEK), advancing business expansion in China. GRITEK was listed on the Shanghai Stock Exchange’s Sci-Tech Innovation Board (STAR Market) in November 2022. Although GRITEK’s investment ratio, including indirectly owned shares, is just over 40%, the Company is deemed to have substantial management control and includes it as a consolidated subsidiary, and intends to maintain it as a subsidiary in the future.

In terms of M&A in Japan, the Company made Union Electronics Solutions Co., Ltd., a semiconductor trading company, a subsidiary in 2018, followed by DG Technologies Co., Ltd., which manufactures and sells consumable materials for semiconductor manufacturing equipment (such as quartz rings and silicon electrodes), in 2019. In October 2023, the Company established a new subsidiary, LE System Co., Ltd., to take over the business of the former LE System, a pioneer in the development and manufacturing of electrolytes for VRFBs that had led the industry since the 1970s. Through these moves, the Company entered not only the semiconductor market but also the energy market. Recently, RSPDH was added as a subsidiary in December 2024, engaging in the manufacture and sale of optical pickup and automotive camera modules.

The Company's strength in reclaimed wafers lies in the large number of times they can be reclaimed and in technologies for removing metallic impurities

2. Reclaimed wafers and prime wafers

To appreciate the strengths and growth potential of the Company's mainstay Wafer Reclaim Business and Prime Wafer Business, it is essential to understand the semiconductor manufacturing process and role of silicon wafers as well as the manufacturing methods used to produce them. An explanation is provided below.

(1) Silicon wafers

The semiconductor manufacturing process consists of the front-end process, where fine circuits are formed on silicon wafers (repeating the photolithography process hundreds of times), and the back-end process, where the wafers are finished into individual semiconductors. The silicon wafers used in the front-end process manufacturing line include "prime wafers" (new wafers) used for semiconductor products, as well as "monitor wafers," also known as "test wafers," which are used to evaluate the finished condition of each process, and "dummy wafers" used to improve the stability of precision processing. From a cost perspective, reclaimed wafers are often used for "test wafers."

(2) Wafer reclamation

The volume of test wafers used accounts for around 20% of the total volume of wafers input into the semiconductor manufacturing line. In order to reduce the cost of manufacturing semiconductors, customers are reusing test wafers that have been used once and then reclaimed by a reclamation processing business such as the Company. The price of a reclaimed wafer is cheap at around 25% the price of a new wafer, so currently it seems that around 80% of test wafers are reclaimed wafers.

In the wafer reclamation process, an acceptance inspection is conducted and all the insulating films formed in the semiconductor manufacturing process, are removed. After that, polishing is performed in a clean room, followed by precision cleaning, and then shipment. The Company's strengths can be summarized as the following three points. The first is that it can precisely ascertain needs and demand trends by communicating directly with all customers through a direct-sales system (it can hold technical meetings with customers' engineers in the main languages), and it is realizing production management with thorough cost reductions at its Tokyo headquarters. The Company's second strength is its technological capabilities, as in the film removal process, it can strip all the film through chemical processes and perform precision polishing that minimizes damage to the wafer's surface. This increases the number of times a wafer can be reclaimed from 20 to 30 times, which is around double the industry average. The thinner the layer of wafer that is removed in a single reclamation process, the more times it can be reclaimed, which has cost advantages for customers. The Company's third strength is that it has technologies to remove metal impurities. In particular, it is highly regarded by many semiconductor manufacturers as the only supplier capable of removing copper (Cu) contamination to a degree of cleanliness that is good as new. This means that even for test wafers, which are used in the copper wiring formation process, it can reuse them in other processes (its competitors are unable to completely remove copper impurities, so they can only reuse them in the copper wiring formation process).

The Wafer Reclaim Business is distinguished by its stable profitability in that it is less susceptible to conditions in the semiconductor market. This is because the volume of test wafers introduced to production lines remains essentially unchanged even during downturns in the semiconductor market, in contrast to prime wafers, which decrease under such conditions.

(3) Prime wafers

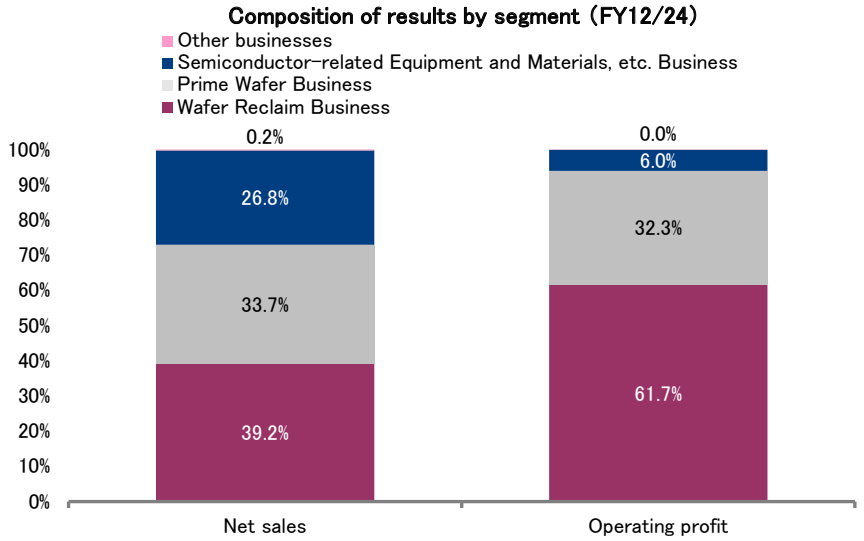
The prime wafer manufacturing process consists of front-end processing, which includes silicon crystal ingots in a crucible being pulled up and rotated, and back-end processing, which includes slicing wafers from silicon materials into disk-shapes and polishing the surface of the wafers. Both processes require advanced technical capabilities, but the success or failure of the business depends largely on the technical capabilities of the front-end processing, which directly affects wafer quality in particular. Differences in quality occur due to the speed of pulling up the silicon ingots and various other conditions, so profitability changes depending on how many wafers can be obtained that clear the prime wafer quality standards (homogeneous purity, oxygen concentration, resistance value, etc.) This is because even for new wafers, the grade is determined by quality, and if certain standards are not met, they are sold at a low price as test wafers.

Shandong GRITEK of China manufactures and sells prime wafers. One of its strengths is that it can utilize various preferential treatment systems as a domestically funded company, given that the Chinese government has made it a national policy to develop the semiconductor industry. In technology, the Company leverages its industry-leading technology capabilities cultivated over many years in the Wafer Reclaim Business in back-end polishing and cleaning processes. It currently sells to the Chinese market, but it is considering worldwide sales in the future, and in that case, a strength will be its ability to utilize its customer base in the Wafer Reclaim Business.

The Wafer Reclaim Business leads the 12-inch wafer market with a 33% share, while the Prime Wafer Business is developing in the Chinese market

3. Business description

The Company classifies its business operations into three business segments: the Wafer Reclaim Business, Prime Wafer Business, and Semiconductor-related Equipment and Materials, etc. Business, and discloses information on each segment. Looking at the composition of results by business segment in FY12/24 (excluding adjustments), the Wafer Reclaim Business provided 39.2% of net sales and 61.7% of operating profit, and the Prime Wafer Business provided 33.7% of net sales and 32.3% of operating profit. These two businesses are the Company's core earnings drivers.



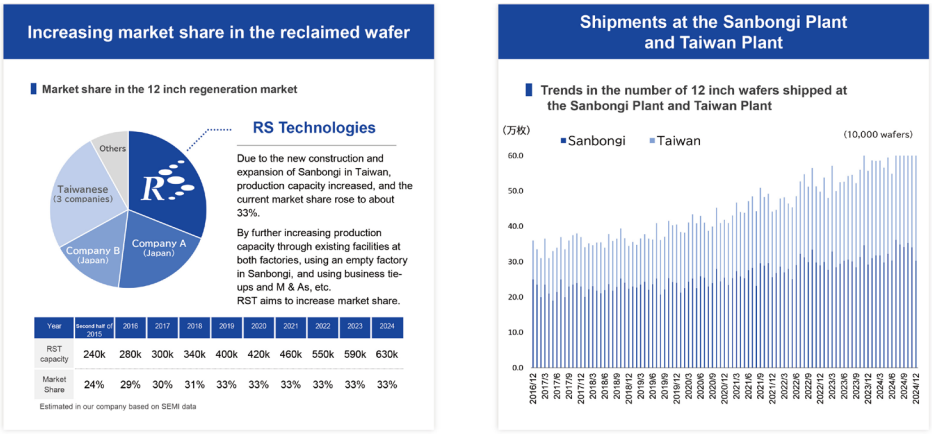
Source: Prepared by FISCO from the Company's financial results

(1) Wafer Reclaim Business

The Wafer Reclaim Business is conducted by the Company and its Taiwanese subsidiary, but from 2Q FY12/22, the equity-method affiliate SGRS also began a production line of 12-inch reclaimed wafers. Only the Company is conducting this business with three bases in Japan, Taiwan, and China. The monthly production capacity for the mainstay 12-inch wafers at the end of FY12/24 was 590,000 wafers in total, comprised of 320,000 wafers in Japan (also has a capacity for 150,000 8-inch wafers) and 270,000 wafers in Taiwan, in addition to capacity for 50,000 wafers in China.

In terms of the composition of sales, the 12-inch wafer provides the majority, at around 90%. According to the Company's estimate, it has the leading global market share on a volume basis, of around 33%. In addition to the sophisticated reclaim processing technologies, it thoroughly reduces costs mainly through a direct-sales system and provides services with high levels of customer satisfaction by communicating closely with customers, and these strengths are considered to lead to its high share. It has two competitors in Japan, HAMADA RECTECH LTD. and MIMASU SEMICONDUCTOR INDUSTRY CO., LTD. (a subsidiary of Shin-Etsu Chemical Co., Ltd. <4063>), while its overseas competitors are three Taiwanese-owned companies. These six companies form an oligopolistic market that hold roughly 90% of the total market share, and therefore price competition is unlikely to occur, which is a feature of this industry's structure.

Wafer Reclaim Business



Source: The Company's results briefing materials

Furthermore, the breakdown of the number of wafers shipped by region (FY12/24) is as follows. For 12-inch reclaimed wafers, Taiwan provides 48.0% and Japan 38.7%, so these two countries provide just under 90% of the total, followed by Europe at 6.5%, the US at 4.2%, and Asia at 2.5%. The Company's main customers include the world's biggest foundry manufacturers, as well as major semiconductor manufacturers in Japan, the US, and Europe.

(2) Prime Wafer Business

The business of the Company's Chinese subsidiary, GRITEK, comprises manufacture and sales of prime wafers and silicon materials. With respect to composition of sales for FY12/24, prime wafers accounted for about 70% of sales and silicon materials accounted for about 30% of sales. Prime wafer monthly production capacity at the end of FY12/24 totaled 50,000 5-inch wafers, 200,000 6-inch wafers, and 180,000 8-inch wafers. The customers for 8-inch prime wafers are Chinese semiconductor manufacturers, and about 60% of this demand is related to power semiconductors for applications including automotive power supplies, air conditioners, industrial machinery, and inverters. The Company estimates that its share of the 8-inch prime wafer market in China was around 5% as of 2023 and has grown several percentage points (pp) in 2024, and it plans to grow this share in the future by increasing production capacity.

The Company also sells silicon materials in overseas markets outside of China. The final customers are manufacturers of semiconductor manufacturing equipment and foundry manufacturers, while direct-sales customers are processors of consumable materials, and it ships to Group company DG Technologies (DGT). A decision has been made to have GRITEK acquire 70% of shares in DGT from the Company and make it into a subsidiary. Having DGT as a direct subsidiary of GRITEK will enable closer business coordination between the two companies and it is expected to make it easier to cultivate the Chinese market and grow the Company's share in other regions. As a result, the Company's ownership in DGT will decrease from 100% to 58.15%, which includes indirect holdings.

(3) Semiconductor-related Equipment and Materials, etc. Business

The Semiconductor-related Equipment and Materials, etc. Business includes sales of semiconductor manufacturing equipment and semiconductor materials as well as parts that are purchased and sold by the Company and sales by subsidiaries Union Electronics Solutions and DGT. It mainly purchases the semiconductor manufacturing equipment from Japanese semiconductor manufacturers, trading companies, and others (including some used products), and sells them to semiconductor manufacturers around the world.

Union Electronics Solutions is a semiconductor-related trading company. DGT manufactures and sells consumable materials for dry etching equipment.

4. Other businesses

The sales of other businesses are comprised of revenue from electricity sales from the solar power generation business started in 2013 and technical consulting services and other services provided by the Company in the semiconductor wafer manufacturing process. However, its effect on results overall is negligible.

Results trends

In FY12/24, growth in all business segments led to the Company's first record-high results in two fiscal years

1. FY12/24 results summary

In the FY12/24 consolidated results, the Company reported ¥59,200mn in net sales (up 14.1% YoY), ¥13,108mn in operating profit (up 10.2%), ¥15,668mn in ordinary profit (up 5.0%), and ¥9,446mn in profit attributable to owners of parent (up 22.6%), achieving record-high results for the first time in two fiscal years. Additionally, all results except operating profit exceeded the Company's targets.

Results trends

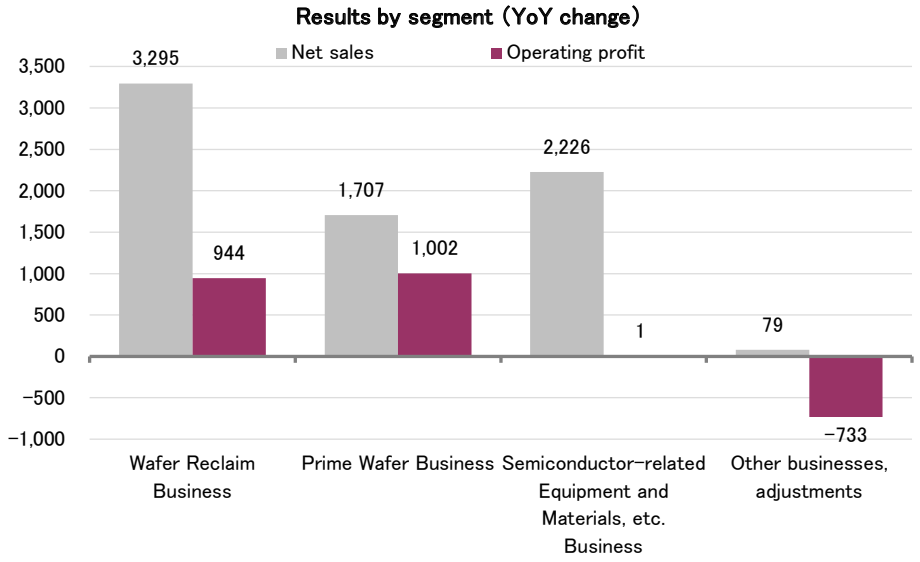
FY12/24 results (consolidated)

(¥mn)

	FY12/23		FY12/24				
	Results	% of net sales	Forecast	Results	% of net sales	YoY	vs. forecast
Net sales	51,893	-	54,900	59,200	-	14.1%	7.8%
Cost of sales	34,479	66.4%	-	39,820	67.3%	15.5%	-
SG&A expenses	5,519	10.6%	-	6,271	10.6%	13.6%	-
Operating profit	11,894	22.9%	14,000	13,108	22.1%	10.2%	-6.4%
Financial balance	1,430	-	-	1,401	-	-2.0%	-
Subsidy income	1,735	-	-	1,120	-	-35.4%	-
Foreign exchange gains/loss	97	-	-	726	-	647.1%	-
Equity in earnings/losses of affiliated companies	-292	-	-	-685	-	-	-
Ordinary profit	14,921	28.8%	15,400	15,668	26.5%	5.0%	1.7%
Extraordinary income/losses	63	-	-	1,500	-	-	-
Profit attributable to non-controlling interests	3,681	7.1%	-	3,553	6.0%	-3.5%	-
Profit attributable to owners of parent	7,703	14.8%	7,600	9,446	16.0%	22.6%	24.3%
Capital investment	5,999	-	-	8,786	-	46.5%	
Depreciation	3,774	-	-	4,199	-	11.3%	
R&D expenses	1,764	-	-	1,647	-	-6.6%	

Source: Prepared by FISCO from the Company's financial results

Backed by the growth of the semiconductor market, net sales grew in all segments, including by ¥3,295mn YoY in the Wafer Reclaim Business, ¥1,707mn in the Prime Wafer Business, and ¥2,226mn in the Semiconductor-related Equipment and Materials, etc. Business. Operating profit increased by ¥944mn in the Wafer Reclaim Business and ¥1,002mn in the Prime Wafer Business, representing profit improvements in both businesses.



Source: Prepared by FISCO from the Company's results briefing materials

The operating profit margin decreased YoY from 22.9% to 22.1% due to factors including changes in the composition of sales, but profitability remained high. Non-operating profit and expenses worsened by ¥468mn, meaning that the growth rate for ordinary profit remained in single figures, and this was mainly due to a decrease of ¥614mn in subsidy income and the share of loss of entities accounted for using equity method growing by ¥393mn, despite foreign exchange gains increasing by ¥629mn. Subsidy income decreased due to the disappearance of around ¥0.3bn in subsidies associated with establishing a new factory for DGT in the previous fiscal year, as well as a decrease in the subsidies received by Shandong GRITEK. The share of loss of entities accounted for using equity method grew due to an increase in costs associated with realizing mass production of 12-inch prime wafers at SGRS. The Company also recorded ¥1,500mn in negative goodwill associated with making RSPDH into a subsidiary in December 2024 as extraordinary income.

Looking at the overall state of the semiconductor market, activity concerning AI-enabled semiconductors remains brisk, but the recovery of semiconductors for PCs and smartphones has been slower than expected, and the slump in demand for semiconductors for industrial machinery is persisting, resulting in patchy conditions overall. However, the Company's customers, including those based in China, seem to have been performing smoothly, enabling it to exceed its targets for net sales, ordinary profit, and profit attributable to owners of parent.

Sales to new semiconductor factories grew in the Wafer Reclaim Business, and profit recovered in the Prime Wafer Business

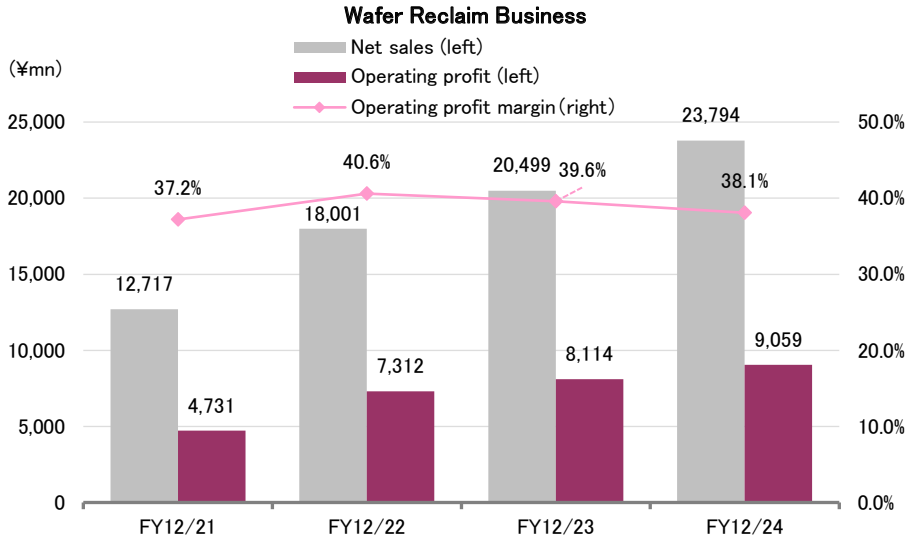
2. Developments by business segment

(1) Wafer Reclaim Business

The Wafer Reclaim Business achieved favorable results with net sales having increased 16.0% YoY to ¥23,794mn (includes internal sales and transfer value, same below) and operating profit having risen 11.6% to ¥9,059mn. Demand for reclaimed wafers remained strong in Japan and overseas, so the Company invested in enhancing production capabilities in line with this demand (increase in total monthly production capacity in Japan and Taiwan from 540,000 wafers at the end of FY12/23 to 590,000). Demand for sales wafers* also grew considerably following the establishment of new factories in Japan and the US by major foundry manufacturers, contributing to the increase in sales and profit. Looking at the breakdown of net sales, sales of reclaimed wafers increased 9.6% to ¥15,882mn while sales of sales wafers grew 31.6% to ¥7,911mn. In regard to pricing, the price of reclaimed wafers grew slightly while the increase in the price of sales wafers was in the 5–10% range. There was a slight decline in operating profit margin from 39.6% to 38.1%, but this was due to factors such as an increase in depreciation associated with capital investment, so profitability remained high.

* Out-of-spec test wafers that have been purchased from the market by the Company, polished, and then sold as new monitor wafers. The ratio of new wafers used as monitor wafers tends to be higher during the establishment of a new factory.

Results trends

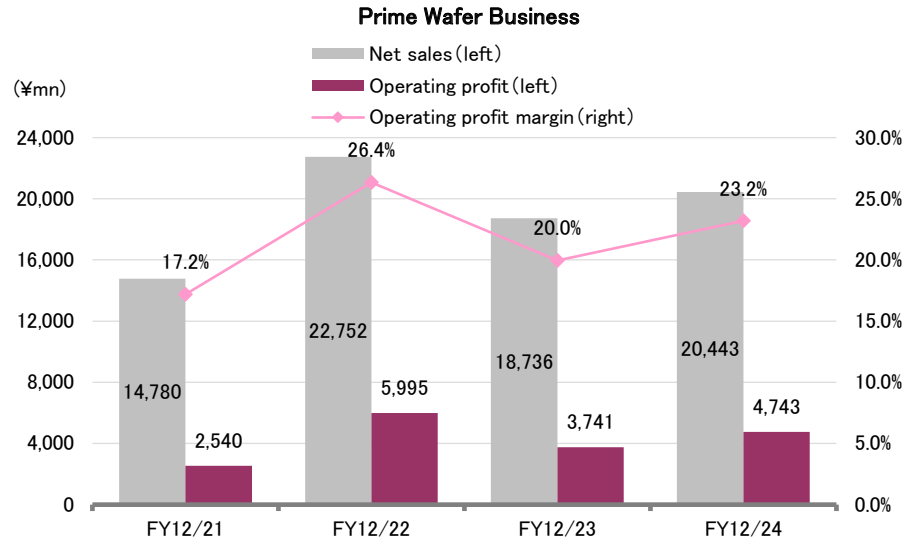


Source: Prepared by FISCO from the Company's financial results

(2) Prime Wafer Business

The Prime Wafer Business returned to growth in both sales and profits for the first time in two fiscal years, with net sales increasing 9.1% YoY to ¥20,443mn and operating profit rising 26.7% to ¥4,743mn. Although there was a period of inventory adjustments for customers of silicon materials, the performance of prime wafers was boosted by the recovery of the Chinese semiconductor market and the effects of investing in enhancements to 8-inch wafer production capabilities (increase in total monthly production capacity from 130,000 wafers at the end of FY12/23 to 180,000), resulting in an increase in sales and profit. The sales price of 8-inch wafers remained roughly level with the previous fiscal year. The operating profit margin increased from 20.0% to 23.2% due to improvements to the sales mix, a rise in the operating rate, and the effects of efforts to reduce costs, including revisions to the strategy for procuring polycrystalline silicon*, a key raw material.

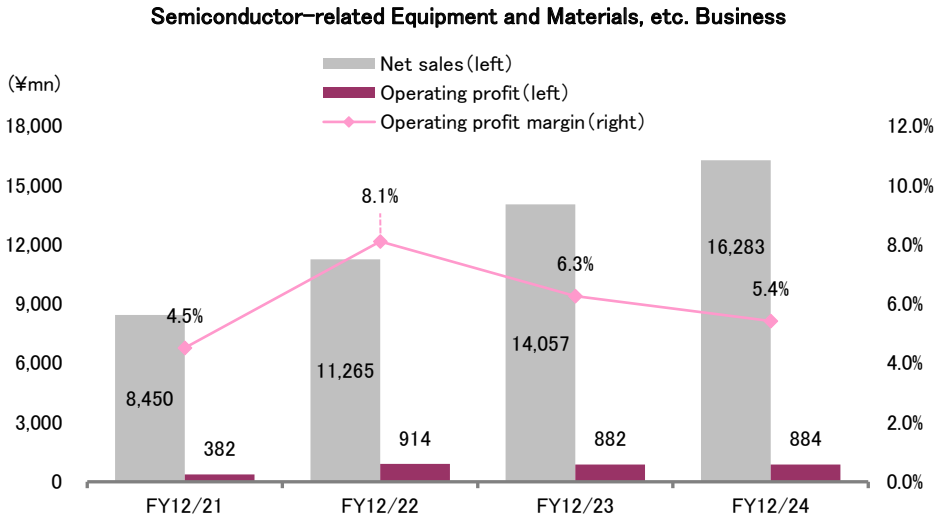
* Suppliers were integrated in China from 3Q onward.



Source: Prepared by FISCO from the Company's financial results

(3) Semiconductor-related Equipment and Materials, etc. Business

In the Semiconductor-related Equipment and Materials, etc. Business, net sales increased 15.8% YoY to ¥16,283mn, and operating profit rose 0.2% to ¥884mn. The increase in sales is primarily attributable to sales associated with a large project in 1Q, in which the Company purchased a complete semiconductor manufacturing line in bulk from a trading company and then sold it to an overseas manufacturer. However, the contribution to profits was insignificant given that the Company incurred inspection costs and other such outlays because this was the first time it had made a large sale involving a complete manufacturing line. As for the Company's subsidiaries, although DGT recorded an increase in sales and profits as the market recovered, Union Electronics Solutions saw a downturn in performance when it lost a highly profitable order for a specific product in 3Q. There was a slight decline in the operating profit margin from 6.3% to 5.4% due to changes in the sales mix.



Source: Prepared by FISCO from the Company's financial results

Abundant cash on hand to be allocated to growth investment and shareholder return

3. Financial position and management indicators

Looking at the Company's financial position at the end of FY12/24, total assets had increased ¥41,480mn from the end of the previous fiscal year to ¥182,146mn. The main factors behind this change were increases in current assets of ¥14,466mn in cash and deposits, ¥10,744mn in notes and accounts receivable, and ¥2,157mn in inventories. In non-current assets, property, plant and equipment increased ¥10,248mn due to investment in strengthening production capacity, while intangible fixed assets increased ¥423mn and investments and other assets rose ¥2,323mn. Positive factors include the effects of including RSPDH within the scope of consolidation.

Total liabilities increased ¥21,360mn from the end of the previous fiscal year to ¥46,598mn. This was mainly due to increases of ¥4,052mn in interest-bearing debt, ¥3,128mn in notes and accounts payable-trade, ¥5,225mn in accounts payable-other, and ¥1,566mn in lease liabilities (long- and short-term). Total net assets increased ¥20,119mn to ¥133,548mn. Retained earnings rose ¥8,656mn due to factors including the recording of profit attributable to owners of parent, while the foreign currency translation adjustment increased ¥3,605mn and non-controlling interests rose ¥7,819mn.

Looking at management indicators, the equity ratio, which reflects soundness, declined from 39.9% at the end of the previous fiscal year to 37.5%, while the interest-bearing debt ratio rose from 9.7% to 13.9%. These changes may look like a slight downturn in financial condition, but the impact of the increase in assets and liabilities associated with including RSPDH within the scope of consolidation was a big factor. Net cash (cash and deposits – interest-bearing debt) increased ¥10,413mn to ¥75,725mn to set a new record high, which suggests the Company has further strengthened its financial base. The Company intends to allocate accumulated cash to growth investment including capital investment and M&As, and to shareholder return.

Consolidated balance sheet

(¥mn)

	FY12/21	FY12/22	FY12/23	FY12/24	Change
Current assets	45,851	90,470	96,409	124,894	28,485
Cash and deposits	27,766	67,939	70,758	85,224	14,466
Inventories	6,907	9,700	11,589	13,747	2,157
Non-current assets	33,146	37,084	44,256	57,252	12,995
Total assets	78,997	127,554	140,665	182,146	41,480
Current liabilities	14,218	17,622	18,265	34,804	16,539
Non-current liabilities	9,827	8,458	6,972	11,794	4,821
Total liabilities	24,045	26,081	25,237	46,598	21,360
Interest-bearing debt	8,116	8,208	5,446	9,498	4,052
Shareholders' equity	26,627	44,961	52,066	60,766	8,699
Accumulated other comprehensive income	1,971	1,937	4,020	7,626	3,606
Non-controlling interests	26,140	54,356	59,170	66,990	7,819
Net assets	54,951	101,473	115,428	135,548	20,119
[Stability]					
Equity ratio	36.2%	36.8%	39.9%	37.5%	-2.4pp
Interest-bearing debt ratio	28.4%	17.5%	9.7%	13.9%	4.2pp
Net cash	19,649	59,730	65,312	75,725	10,413
[Profitability]					
ROA	12.8%	15.0%	11.1%	9.7%	-1.4pp
ROE	12.6%	20.5%	15.0%	15.2%	0.2pp
Operating profit margin	19.9%	26.1%	22.9%	22.1%	-0.8pp

Source: Prepared by FISCO from the Company's financial results

Outlook

Double-figure growth in net sales and operating profit forecast for FY12/25

1. FY12/25 forecasts

The forecasts for the FY12/25 consolidated results are for net sales to increase 26.7% YoY to ¥75,000mn, operating profit to grow 15.2% to ¥15,100mn, ordinary profit to grow 5.9% to ¥16,600mn, and profit attributable to owners of parent to decrease 7.3% to ¥8,760mn. Profit attributable to owners of parent is expected to decline due to the disappearance of extraordinary income recorded in FY12/24, but net sales, operating profit, and ordinary profit will all continue to increase.

FY12/25 consolidated results forecasts

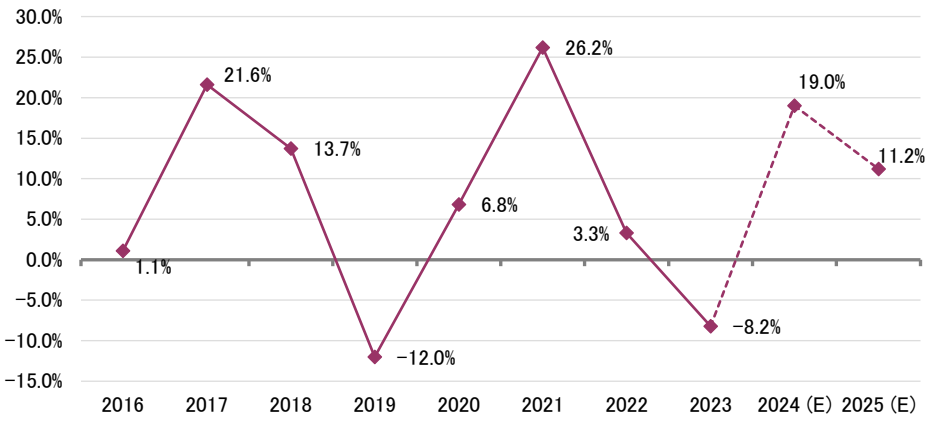
(¥mn)

	FY12/24		FY12/25		
	Results	% of net sales	Forecast	% of net sales	YoY
Net sales	59,200	-	75,000	-	26.7%
Operating profit	13,108	22.1%	15,100	20.1%	15.2%
Ordinary profit	15,668	26.5%	16,600	22.1%	5.9%
Profit attributable to owners of parent	9,446	16.0%	8,760	11.7%	-7.3%
Earnings per share (¥)	358.21		331.56		

Source: Prepared by FISCO from the Company's financial results and results briefing materials

The worldwide semiconductor market outlook according to World Semiconductor Trade Statistics (WSTS) released in December 2024 predicts double-figure growth in 2025, with a YoY increase of 11.2% due to growth in demand for semiconductor for AI applications. While it is possible that tariffs imposed by the Trump administration in the US will be a temporary negative factor, it is thought that this impact will not last long and that the growth trend will continue. In regard to conditions for the Chinese semiconductor manufacturers who are the customers of the Company's Prime Wafer Business, the recovery trend seen in the previous fiscal year is expected to continue due to factors including a recovery in demand for EVs and consumer electronics within China. Therefore, the Company will also enhance production capabilities in FY12/25 in anticipation that both the Prime Wafer Business and the Wafer Reclaim Business will drive an improvement in results.

The semiconductor market growth rate



Source: Prepared by FISCO from WSTS materials

The Company is forecasting net sales of around ¥1.0bn from LE System and ¥10.0bn from RSPDH, representing growth of about 8% based on the Company's existing businesses. The contribution of both subsidiaries to profit is still negligible, so the overall operating profit margin is expected to decline from 22.1% in FY12/24 to 20.1%. Non-operating profit and expenses are also forecast to worsen by ¥1.0bn. This is due to the disappearance of ¥726mn in foreign exchange gains recorded in the previous fiscal year and anticipation of slight growth in the share of loss of entities accounted for using equity method. SGRS is still at the advance investment stage, which includes capital investments to realize mass production of 12-inch prime wafers and efforts to improve quality so it can obtain certification from customers. The assumed exchange rate for the period is ¥140 to the US dollar and provided the yen does not strengthen beyond this level, foreign exchange should not be a negative factor.

(1) Wafer Reclaim Business

In the Wafer Reclaim Business, net sales are forecast to grow by about 5% YoY. The business is expected to continue operating at full capacity as demand from major customers remains strong, and during 2025, it plans to raise monthly production capacity for 12-inch wafers by 40,000 from the end of FY12/24 to 680,000. This will involve increases of 20,000 wafers in Japan and Taiwan respectively, raising monthly production capacity to 340,000 in Japan and 290,000 in Taiwan.

(2) Prime Wafer Business

In the Prime Wafer Business, the Company plans to enhance 8-inch wafer monthly production capacity from 180,000 at the end of FY12/24 to 250,000 in mid-2025, an increase of about 1.4 times. Sales of silicon materials are expected to remain level, but net sales are forecast to grow YoY due to the effects of these efforts to increase prime wafer production.

(3) Semiconductor-related Equipment and Materials, etc. Business

From FY12/25, the Semiconductor-related Equipment and Materials, etc. Business segment will also include LE System and RSPDH as new businesses. Existing businesses are forecast to perform at a similar level to the previous fiscal year, but the addition of the new businesses is expected to lead to a considerable increase in net sales.

LE System is forecast to record net sales of around ¥1.0bn and within this, it has already shipped VRFB electrolytes worth about ¥330mn (equivalent to battery capacity of about 8.5MWh) to a battery storage facility in Spain. It receives direct orders from VRFB manufacturers. Although its prices are relatively high compared to Chinese manufacturers, its products seem to have a good reputation for quality and performance. It has a backlog of orders for small-scale projects and it will aim to achieve net sales of ¥1.0bn by capturing orders that are currently at the discussion stage.

RSPDH is forecast to record net sales of around ¥10.0bn, and in addition to optical pickup modules, which are its mainstay products, it will also leverage the Company's network in China to sell automotive camera modules to local companies. While a lot of companies are active in the automotive camera module market and competition is fierce, its strategy is to cultivate customers by using the advanced manufacturing technology it has inherited to provide high-quality products at low prices. Organizational restructuring following its consolidation as a subsidiary of the Company will also make its management structure leaner.

Targeting net sales of ¥100.0bn in FY12/27

2. Medium-term management plan

The Company has released a three-year medium-term management plan extending through to FY12/27. Its targets for FY12/27 are net sales of ¥100,000mn, operating profit of ¥21,900mn, ordinary profit of ¥23,400mn, and profit attributable to owners of parent of ¥12,700mn. For three-year CAGR, it is targeting high levels of growth, including 19.1% for net sales and 18.6% for operating profit. Comparing the targets for FY12/26 with those from the previous medium-term management plan (released in February 2024), net sales has been revised upward by about ¥24.0bn and operating profit by about ¥0.9bn. The addition of new businesses LE System and RSPDH is a big factor behind this increase, alongside efforts to build up 8-inch wafer production capabilities in the Prime Wafer Business. The targets for ROIC and ROE are over 13% and over 14% respectively, exceeding the levels recorded in FY12/24 (ROIC of 12.5% and ROE of 13.8%).

Targets for medium-term results

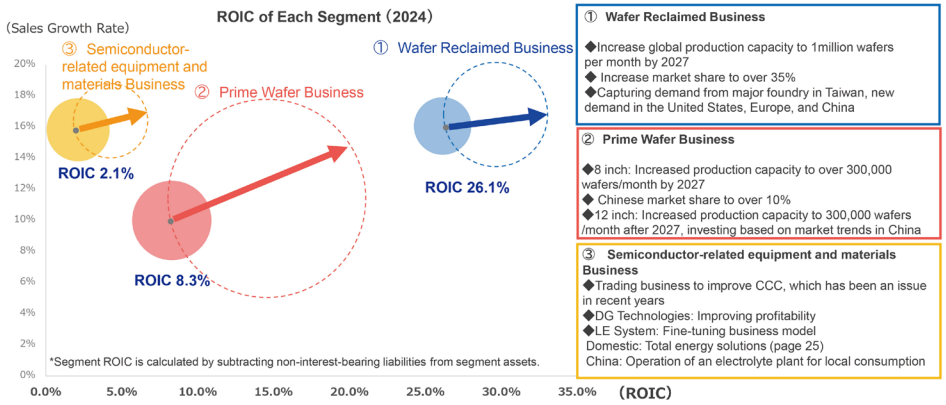
(¥mn)

	FY12/24 Results	FY12/25		FY12/26		FY12/27 Targets	CAGR (FY12/24–FY12/27)
		Previous targets*	Forecast	Previous targets*	Targets		
Net sales	59,200	59,300	75,000	64,100	88,000	100,000	19.1%
Operating profit	13,128	15,330	15,100	16,830	17,700	21,900	18.6%
Operating profit margin	22.1%	25.9%	20.1%	26.3%	20.1%	21.9%	-
Ordinary profit	15,688	16,730	16,600	18,230	19,200	23,400	14.3%
Ordinary profit margin	26.5%	28.2%	22.1%	28.0%	21.8%	23.4%	-
Profit attributable to owners of parent	9,466	8,200	8,760	8,800	10,270	12,700	10.3%
Earnings per share (¥)	358.21	311.10	331.56	333.86	388.71	480.69	
ROIC	12.5%	13% or more					
ROE	13.8%	14% or more					

* Previous targets are from the forecast released in February 2024.
Source: Prepared by FISCO from the Company's results briefing materials

Outlook

ROIC by segment



Source: The Company's results briefing materials

Looking at cash allocation for the three-year period until 2027, funds comprise approximately ¥73.0bn in net cash held by the Company at the end of 2024 and approximately ¥55.0bn in cash flow from operating activities over the three years. The Company has allocated ¥70.0bn or more to capital investment in its existing businesses and ¥35.0bn or more to M&A investment (envisioning three to five deals in Japan and overseas), and it also plans to provide shareholder returns by raising the dividend each year.

(1) Wafer Reclaim Business

In the Wafer Reclaim Business, the plants in Japan and Taiwan are increasing their production capacities to respond to strong demand for 12-inch reclaimed wafers. In addition, SGRS's Dezhou plant has started production and its strategy is to capture demand in China.

Of these, the total monthly production capacity of the Japan and Taiwan plants is expected to increase from 590,000 wafers at the end of December 2024 to 810,000 wafers by the end of 2027, expanding by 1.37 times (an average annual increase of 11%). In Japan in particular, the Company has decided to make a large investment of ¥10.0bn in 2027. In order to respond to growing demand for reclaimed wafers accompanying a succession of new semiconductor factories opening in Japan and overseas, the Company will restart operation of Plant 7 at its Sanbongi plant, which had been dormant. It plans to make capital investments in Plant 7 totaling ¥15.0bn over three years from 2027 to increase the monthly production capacity by 40,000 wafers in FY2028 and 30,000 in FY2029. The Taiwanese subsidiary will also increase monthly production capacity for 12-inch reclaimed wafers incrementally and make other targeted investments to respond to miniaturization.

Furthermore, at the Dezhou plant of SGRS, plans to increase production have been pushed back one year. It originally planned to increase monthly production capacity from the current 50,000 wafers to 150,000 within FY2025, but now it will aim to increase production to 150,000 in FY2026 and 200,000 in FY2027. It seems that revisions made to some plans to build semiconductor factories due to import restrictions on semiconductor manufacturing equipment have had an impact. As SGRS is an equity-method affiliate, the impact on the Company's consolidated results will be minimal.

Plan to strengthen production capacity for 12-inch reclaimed wafers

Plant	Monthly production capacity at period-end			
	2024	2025	2026	2027
Sanbongi plant	320,000 wafers	340,000 wafers	360,000 wafers	440,000 wafers
Tainan plant	270,000 (+10,000) wafers	290,000 (+10,000) wafers	330,000 wafers	370,000 wafers
Dezhou plant*	50,000 wafers wafers	50,000 (-100,000) wafers	150,000 (-50,000) wafers	200,000 wafers
Total	640,000 (+10,000) wafers	680,000 (-90,000) wafers	840,000 (-50,000) wafers	1,010,000 wafers

* The Dezhou plant refers to the portion of the equity-method affiliate SGRS; figures in parentheses indicate changes from the previous period.
Source: Prepared by FISCO from the Company's results briefing materials

Capital investment plans

(¥bn)

Plant	Monthly production capacity at period-end							
	2020	2021	2022	2023	2024	2025	2026	2027
Sanbongi plant	0.2	0.9	0.9	1.0	0.2	1.3	1.5	10.0
Tainan plant	0.2	0.8	0.9	1.1	1.0	2.1(+0.6)	2.8(-0.7)	1.2
Dezhou plant*	0.5	3.0	0.5	0.1	0.1	0.5(-2.5)	3.0	3.0
Total	0.9	4.7	2.3	2.2	1.3	3.9(-1.9)	7.3(-0.7)	14.2

* The Dezhou plant is a plant of equity-method affiliate SGRS, and the Company was responsible for about 20% of the capital investment; figures in parentheses indicate changes from the previous period.
Source: Prepared by FISCO from the Company's results briefing materials

(2) Prime Wafer Business

In the Prime Wafer Business, Shandong GRITEK plans to raise its 8-inch monthly production capacity incrementally from 180,000 wafers at the end of FY12/24 to 250,000 in FY12/25 and then 300,000 in FY12/26, an increase of 20,000 wafers compared to the previous forecast. This also represents an annual growth rate of 29%. It intends to increase its share of the Chinese market from the current few percent to over 10%. Inquiries from the power semiconductor manufacturers that make up its customer base remain robust, and while it has yet to determine its plans for FY2027, there is plenty of room for the business to grow its market share, and at FISCO, we think it is highly probable that the Company will continue to enhance production capabilities.

SGRS, which handles 12-inch prime wafers, plans to raise monthly production capacity by 50,000 wafers compared to the end of FY2024 to 110,000 in FY2025. It also plans to raise it by a further 40,000 to 150,000 in FY2026 and then another 150,000 to 300,000 in FY2027. This target for FY2026 is 60,000 wafers lower than in the previous medium-term management plan. It is carefully monitoring demand trends in the Chinese market before making investments in 12-inch wafers, for the same reasons as in the Wafer Reclaim Business.

As for the sales strategy, the Company will continue targeting Chinese semiconductor manufacturers by meeting quality standards for prime wafers with a circuit width of 28–40 nm, the volume zone, and expanding its customer base. Its strategy is to first acquire top share of the Chinese market, and as the next step, to meet the quality standards for 14–20 nm prime wafers, the volume zone for global markets, and conduct sales targeting major overseas semiconductor manufacturers by utilizing its price competitiveness. Major customers in the Wafer Reclaim Business have expressed intentions to purchase prime wafers due to their price advantage as long as quality standards are ensured and a stable supply system is established, thereby indicating ample potential for the Company to expand market share once that system is in place.

Outlook

Investment plan for prime wafers in China

Shandong GRITEK (consolidated subsidiary)

8-inch	2024	2025	2026	2027
Monthly production capacity (1,000/month)	180	250(+20)	300(+20)	To be determined
Capital investment value (¥bn)	4.0	3.0(+1.0)	3.0(+1.0)	To be determined

SGRS (equity-method affiliate)

12-inch	2024	2025	2026	2027
Monthly production capacity (1,000/month)	60	110	150(-60)	300
Capital investment value (¥bn)	6.0	8.0(+4.0)	17.0(+7.0)	To be determined

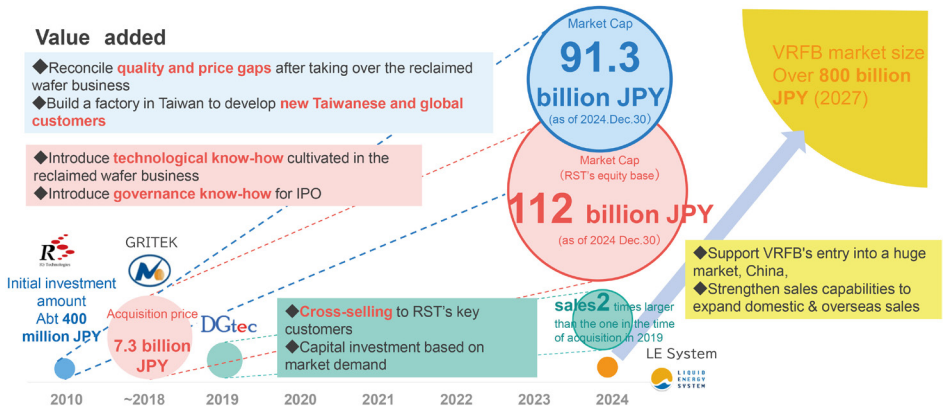
* The Company Group is responsible for about 20% of the capital investment; figures in parentheses indicate changes from the previous period.
Source: Prepared by FISCO from the Company's results briefing materials

(3) M&A strategy

The Company is actively pursuing an M&A strategy to grow its business in scale, and it has already acquired LE System and then RSPDH as subsidiaries.

It is targeting M&As in the semiconductor and energy fields, as well as companies engaged in new business that have growth potential and can be expected to create synergies as part of the Group. The standard for investment is an expected return of 14–20%. Mr. Ho, president and CEO of the Company, has made use of his extensive network to carry out M&As. This included investing ¥7.3bn in the period up to 2018 to make GRITEK a subsidiary and then listing it on the market. As of the end of 2024, GRITEK's market capitalization had grown to ¥112.0bn (based on the Company's equity), surpassing the Company's market capitalization of ¥91.3bn. Going forward, the Company plans to raise the Group's corporate value by not only growing its existing businesses, but also expanding business areas through M&As. Additionally, in January 2026, it plans to transition to a holding company structure to enable more flexible decision-making concerning M&As and other matters.

M&A initatives



Source: The Company's results briefing materials

Outlook

VRFB electrolytes business to enter the Chinese market in 2026, with the aim of achieving future sales in the tens of billions of yen range

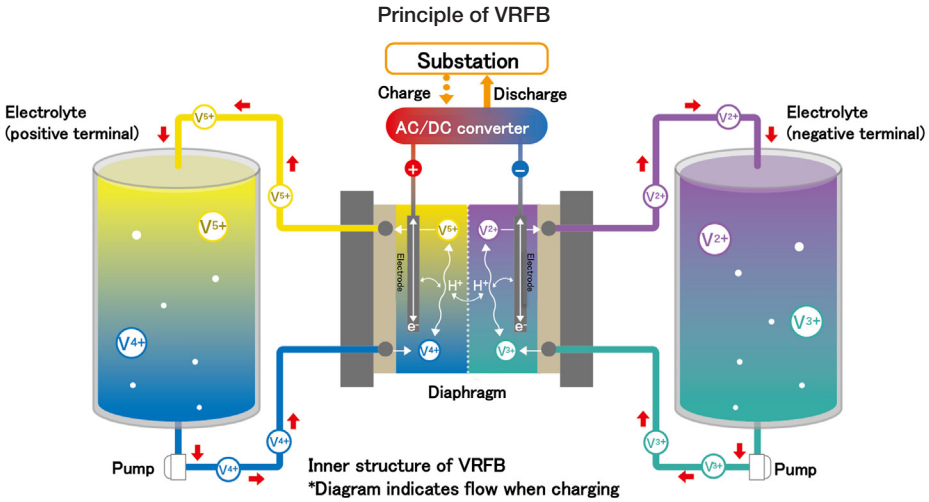
3. VRFB electrolytes business strategy

(1) About VRFBs

In October 2023, the Company established LE System, a new wholly owned subsidiary to handle the development, manufacture and sales of electrolytes for VRFBs (it took over the business of the former LE System Co., Ltd., in December of the same year). VRFBs are a type of storage battery that have undergone research and development since the 1970s as part of a national project aimed at saving energy. Compared to lithium-ion batteries, which are currently in wide use, they are not suited to miniaturization, but their features include that they are highly safe, have no long-term performance degradation, and can be charged and discharged without limitation.

In addition, while other storage batteries charge and discharge through chemical changes in the electrodes, VRFBs operate through chemical changes in the electrolytes, allowing storage capacity to be easily increased simply by adding more electrolyte. Thanks to their flexible design, they are attracting attention as the optimal storage battery for stationary, large-scale applications—particularly for storing electricity generated by solar and wind power. Over the past one to two years, the market has been rapidly expanding, especially in China.* While initial costs are high compared to lithium-ion batteries (LiB), the Company has calculated that the 10-year operating costs are about the same, and that these costs can drop by more than 30% over a 20-year operating span, giving them an advantage in terms of cost for applications that assume long-term usage.

* The record of public tenders for VRFB electrolytes in China shows that tenders grew about 18 times over two years, from 200MWh in 2022 to 1,560MWh in 2023 and 3,700MWH in 2024.



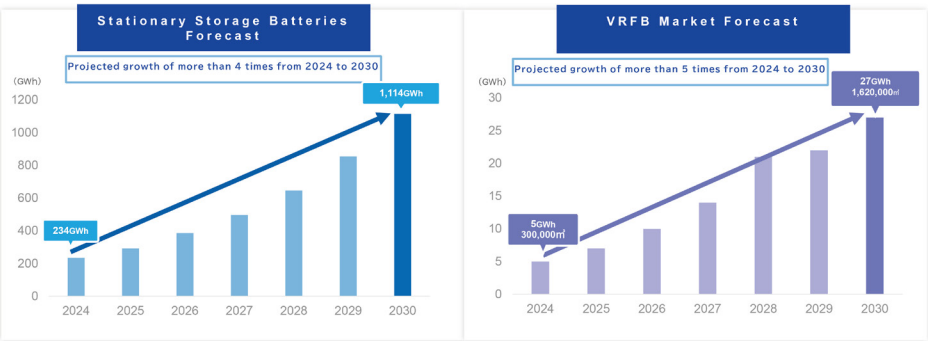
Source: The material provided by the Company

(2) Market outlook

While the daytime supply of electricity from clean energy has increased with the spread of mega solar power plants, cases of electricity being discarded due to supply-demand imbalances have become increasingly apparent. As a result, the need for stationary large-scale storage batteries that can temporarily store generated electricity for use at night is rapidly growing both in Japan and overseas. According to materials provided by the Company (materials from the World Bank and the International Bank for Reconstruction and Development) the global market for stationary energy storage is forecast to grow by more than four times in size from 234GWh in 2024 to 1,114GWh in 2030 (annual growth rate of 30%), and within this, the VRFB market shows great potential, growing by more than five times (annual growth rate of 32%) from 5GWh in 2024 to 27GWh* in 2030.

* The equivalent volume of VRFB electrolytes is approximately 300,000 m^3 in 2024 and 1,620,000 m^3 in 2030.

Global storage battery market forecast



Source: The Company's results briefing materials

Over half of the VRFB market is expected to be in Asia, primarily China, and the number of companies entering the market is already growing. In order to cultivate the Chinese market, the Company is establishing a manufacturing base through a joint venture with a local company, and it aims to start full-scale mass production in 2026.

(3) Business strategy

Regarding the Company's business strategy in China, it established RS Technologies Group Xiamen Co., Ltd. in November 2024 as a subsidiary for carrying out investment, and in March 2025, it established RS Energy Co., Ltd. as a subsidiary of that company, to engage in energy-related business. RS Energy will establish joint venture companies with local partners with a view to building manufacturing factories. LE System will also collect technical guidance fees from the joint venture companies. The scale of the new factories has yet to be determined, but it is aiming for a top share of the Chinese market and expects to actively engage in development. In FY2024, the Company invested a total of around ¥1.5bn and it plans to advance development while making use of subsidy systems provided by local governments.

Furthermore, in the domestic market, the Company will continue to manufacture electrolytes at its Namie Plant (annual production capacity of approximately 5,000 m^3, equivalent to around ¥3.0bn) for sale in Japan and overseas, and as a total solutions provider, it will provide customers with a one-stop service that spans from the optimization of electricity costs to the construction of storage battery facilities. In Japan, government policy is oriented toward promoting the spread of stationary energy storage centers so the potential demand is considerable.

(4) Strengths of LE System

Currently, most electrolyte manufacturers are based in China, but LE System identifies three core strengths: the ability to stably procure raw materials, cost competitiveness in the electrolyte production process, and comprehensive technological capabilities that enable collaboration with numerous battery manufacturers. Leveraging these strengths, it aims to expand its customer base both in Japan and overseas.

a) Ability to stably procure vanadium

The four main vanadium-producing countries—South Africa, China, Russia, and the United States—account for over 90% of global production. More than 80% of vanadium is used as an additive in steelmaking (to enhance strength and heat resistance), but it is also widely used in the chemical and electronics industries. While vanadium pentoxide is commonly used as a VRFB electrolyte, a key issue has been the difficulty in controlling procurement costs due to market fluctuations. LE System, however, procures ammonium metavanadate (AMV), an intermediate product, as its raw material, making it less susceptible to such fluctuations. In addition, LE System possesses a variety of technologies for recovering vanadium from waste (residue) generated at thermal power plants, industrial facilities, and similar sites. Looking ahead, the Company may establish a stable procurement system through partnerships with major domestic and international oil and steel companies, as well as leading mining companies in South Africa.

b) Cost competitiveness

The general production flow for electrolytes involves purchasing vanadium pentoxide, dissolving and filtering it, then converting it to 3.5-valent vanadium oxide through an electrolytic reduction process to produce the electrolyte. In contrast, LE System has established a technology for producing electrolytes directly from ammonium metavanadate (AMV), an intermediate product generated before vanadium pentoxide is fully refined. AMV can be procured at a lower cost than vanadium pentoxide through direct price negotiations with suppliers, and its dissolution time is one-fifth as long, which allows electricity costs to be reduced to less than half. In addition, by using a reduction device with a high liquid surface contact area, LE System estimates that, in theory, its electrolyte production costs can be kept to around 50% of those of other companies.

Since electrolytes account for a high proportion of the total cost of a VRFB at around 35%, adopting LE System's electrolytes offers significant benefits for VRFB manufacturers. According to the Company's own research, another strength is that its electrolytes contain fewer impurities than those of other companies. Fewer impurities are considered more suitable for long-term operation. In addition, LE System has also established lead-free and antimony-free technologies to ensure compliance with environmental regulations. At present, production at factories in Japan is limited to small-lot manufacturing, making the product more expensive than the output of Chinese manufacturers. However, the Company has gained a good reputation for quality and it is starting to build a track record, including winning large orders. Additionally, if it can establish a mass production framework in China, it will become more cost-competitive, so at FISCO, we think it is sufficiently capable of growing its market share.

c) Comprehensive technology strengths

LE System sees its strengths in: A team of technical advisors who have been involved in the R&D of VRFB-related technologies in Japan for over 30 years; an established network at the development level with cell manufacturers in Japan and overseas as it continues research in and development of electrolytes; and VRFB design technology which enables it to develop proprietary cells and propose VRFB systems. In terms of its patent strategy, LE System holds patents in vanadium recovery technology, electrolyte production processes, and VRFB system design, among others (with more than 10 patents granted). The Company will leverage this abundant expertise as a strength to grow the business in Japan as a total solutions provider.

(4) Business forecast for LE System

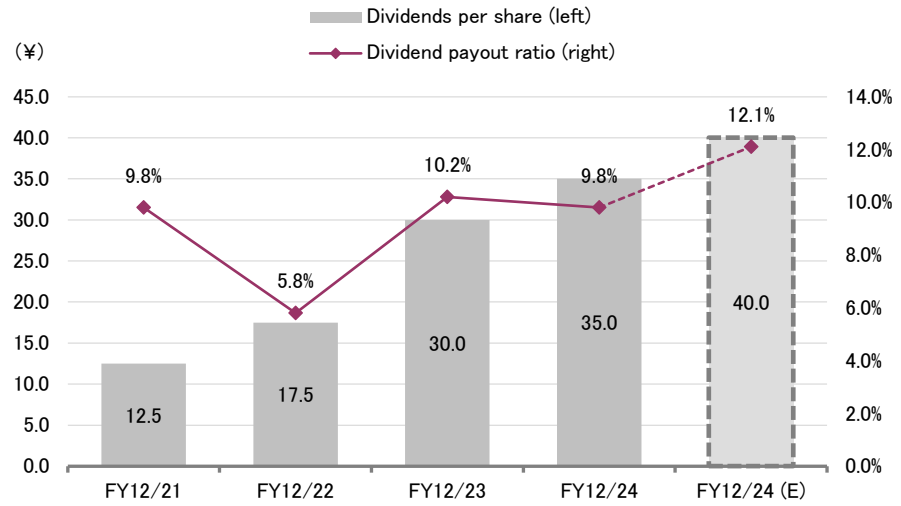
In FY12/25, LE System is forecast to record net sales of around ¥1.0bn, but the Chinese market is large so if it can carry out full-scale business development, then results will grow rapidly. It plans to lower prices by realizing mass production at a factory in China, so it is more than likely that it will grow into a multi-billion-yen business. At FISCO, we think it can achieve an operating profit margin of about 20% and develop into a pillar of profitability for the Company.

Shareholder return policy

Aiming to achieve sustained dividend growth through incremental rises in the dividend payout ratio

Returning profits to shareholders is recognized as an important management priority, and the Company's basic policy is to provide shareholder returns through dividend payments. It adopts a flexible dividend policy based on a comprehensive assessment of factors such as annual profit levels, the outlook of its medium-term management plan, financial position, and investment plans. For FY12/24, the dividend per share was increased by ¥5.0 YoY to ¥35.0 (for a dividend payout ratio of 9.8%), marking the seventh consecutive year of dividend increases. The dividend payout ratio declined slightly YoY due to the recording of extraordinary income. Dividend payout ratio levels are not that high, but this is because it is necessary for the Company to continuously allocate funds to capital investment, M&A, and other areas aimed at future growth, and its basic stance is to reward shareholders by improving corporate value through profit growth. However, since the Company is aiming for a long-term dividend payout ratio of around 30%, we at FISCO believe there is a high likelihood that it will continue to raise the dividend in stages if business performance remains strong. In FY12/25, it plans to increase the dividend per share by ¥5.0 YoY to ¥40.0 (dividend payout ratio of 12.1%).

Dividends per share and dividend payout ratio



Notes: 1. FY12/22 includes a commemorative dividend of ¥2.5 following the listing of the Chinese subsidiary.
2. The Company conducted a 2-for-1 share split on December 31, 2022, so the dividends have been retroactively adjusted.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

FISCO

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■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp